

**REPORT OF THE AUDIT OF THE
CUMBERLAND COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2015**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
CUMBERLAND COUNTY FISCAL COURT

June 30, 2015

The Auditor of Public Accounts has completed the audit of the Cumberland County Fiscal Court for fiscal year ended June 30, 2015.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Cumberland County Fiscal Court.

Financial Condition:

The Cumberland County Fiscal Court had total receipts of \$4,645,048 and disbursements of \$4,648,848 in fiscal year 2015. This resulted in a total ending fund balance of \$1,633,254, which is a decrease of \$26,450 from the prior year.

Report Comment:

2015-001 The Cumberland County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash Receipts And The Reconciliation Process

Deposits:

The fiscal court's deposits as of August 31, 2014 and June 30, 2015, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured on August 31, 2014 \$ 285,644
- Uncollateralized and Uninsured on June 30, 2015 \$ 40,787

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreements at two banks, but the banks did not adequately collateralize the fiscal court's deposits in accordance with the security agreements.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable John A. Phelps, Jr., Cumberland County Judge/Executive

Members of the Cumberland County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Cumberland County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Cumberland County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1 of the financial statement, the financial statement is prepared by Cumberland County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Cumberland County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Cumberland County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Cumberland County Fiscal Court. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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Other Matters (Continued)

Supplementary Information (Continued)

The accompanying budgetary comparison schedules and capital asset schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 06, 2016, on our consideration of Cumberland County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cumberland County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report comment:

2015-001 The Cumberland County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash Receipts And The Reconciliation Process

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a stylized flourish at the end.

Mike Harmon
Auditor of Public Accounts

May 06, 2016

CUMBERLAND COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

John A. Phelps, Jr.	County Judge/Executive
Thomas J. Brown	Magistrate
Edward Anderson	Magistrate
James V. Groce	Magistrate
Earl Branham	Magistrate

Other Elected Officials:

Lindsey Bell	County Attorney
Junior Smith	Jailer
Kim King	County Clerk
Tracey Daniels	Circuit Court Clerk
Scot Daniels	Sheriff
Gina Shaye Watson	Property Valuation Administrator
Gary White	Coroner

Appointed Personnel:

Stacey Thrasher	County Treasurer
Stacey Thrasher	Occupational Tax Collector
Eugenia Amos	Deputy Judge/County Finance Officer

CUMBERLAND COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2015

CUMBERLAND COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2015

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 831,571	\$	\$
In Lieu Tax Payments	68,268		
Excess Fees	9,484		
Licenses and Permits	3,612		
Intergovernmental	396,856	1,650,197	87,993
Miscellaneous	147,018	7,029	
Interest	687	3,386	98
Total Receipts	<u>1,457,496</u>	<u>1,660,612</u>	<u>88,091</u>
DISBURSEMENTS			
General Government	692,761	16,566	
Protection to Persons and Property	68,479		237,792
General Health and Sanitation	127,435		
Social Services	1,000		
Recreation and Culture	60,285		
Roads		1,230,436	
Other Transportation Facilities and Services		7,979	
Debt Service	51,595	19,561	
Capital Projects		134,697	
Administration	324,170	223,871	23,456
Total Disbursements	<u>1,325,725</u>	<u>1,633,110</u>	<u>261,248</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>131,771</u>	<u>27,502</u>	<u>(173,157)</u>
Other Adjustments to Cash (Uses)			
Change in Payroll Revolving Account	(22,650)		
Transfers From Other Funds	80,000		180,000
Transfers To Other Funds	(180,000)	(80,000)	
Total Other Adjustments to Cash (Uses)	<u>(122,650)</u>	<u>(80,000)</u>	<u>180,000</u>
Net Change in Fund Balance	9,121	(52,498)	6,843
Fund Balance - Beginning	78,425	602,729	4,407
Fund Balance - Ending	<u>\$ 87,546</u>	<u>\$ 550,231</u>	<u>\$ 11,250</u>
Composition of Fund Balance			
Bank Balance	\$ 94,302	\$ 595,256	\$ 12,957
Less: Outstanding Checks	(6,756)	(45,025)	(1,707)
Fund Balance - Ending	<u>\$ 87,546</u>	<u>\$ 550,231</u>	<u>\$ 11,250</u>

The accompanying notes are an integral part of the financial statement.

CUMBERLAND COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

Budgeted Funds				
Local Government Economic Assistance Fund	Federal Grants Fund	Forestry Fund	Enhanced 911 Fund	Rural Development Fund
\$	\$	\$	\$	\$
	9,443	3,161	198,622	
68,975	118,431			
648		75		
69,623	127,874	3,236	198,622	
12,515				
12,183	184,454	2,968	175,672	
300	5,314			
9,034				
34,032	189,768	2,968	175,672	
35,591	(61,894)	268	22,950	
35,591	(61,894)	268	22,950	
131,926	123,083	18,589	12,524	
\$ 167,517	\$ 61,189	\$ 18,857	\$ 35,474	\$ 0
\$ 167,803	\$ 65,226	\$ 18,857	\$ 35,474	\$
(286)	(4,037)			
\$ 167,517	\$ 61,189	\$ 18,857	\$ 35,474	\$ 0

The accompanying notes are an integral part of the financial statement.

CUMBERLAND COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

	Unbudgeted Funds		
	Cumberland Public Properties Corporation Fund	Cumberland Health Services Fund	Total Funds
RECEIPTS			
Taxes	\$	\$	\$ 1,033,354
In Lieu Tax Payments			77,711
Excess Fees			9,484
Licenses and Permits			3,612
Intergovernmental	447,391		2,769,843
Miscellaneous		590,042	744,089
Interest	175	1,886	6,955
Total Receipts	<u>447,566</u>	<u>591,928</u>	<u>4,645,048</u>
DISBURSEMENTS			
General Government			721,842
Protection to Persons and Property			681,548
General Health and Sanitation			127,735
Social Services			6,314
Recreation and Culture			60,285
Roads			1,230,436
Other Transportation Facilities and Services			7,979
Debt Service	447,391	578,934	1,097,481
Capital Projects			134,697
Administration			580,531
Total Disbursements	<u>447,391</u>	<u>578,934</u>	<u>4,648,848</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>175</u>	<u>12,994</u>	<u>(3,800)</u>
Other Adjustments to Cash (Uses)			
Change in Payroll Revolving Account			(22,650)
Transfers From Other Funds			260,000
Transfers To Other Funds			(260,000)
Total Other Adjustments to Cash (Uses)			<u>(22,650)</u>
Net Change in Fund Balance	175	12,994	(26,450)
Fund Balance - Beginning	209	687,812	1,659,704
Fund Balance - Ending	<u>\$ 384</u>	<u>\$ 700,806</u>	<u>\$ 1,633,254</u>
Composition of Fund Balance			
Bank Balance	\$ 384	\$ 700,806	\$ 1,691,065
Less Outstanding Checks			(57,811)
Ending Fund Balance	<u>\$ 384</u>	<u>\$ 700,806</u>	<u>\$ 1,633,254</u>

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Cumberland County includes all budgeted and unbudgeted funds under the control of the Cumberland County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

The following entities: The Cumberland County Hospital Association Inc. and The Cumberland County Tourism Commission would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. However, under the regulatory basis they are no longer are required components of the reporting entity.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Federal Grants Fund - The primary purpose of this fund is to account for grants and related disbursements (not accounted for in the Local Government Economic Assistance Fund). The primary sources of receipts are grants from the state and federal governments.

Forestry Fund - The primary purpose of this fund is to account for fire protections receipts and disbursements.

Enhanced 911 Fund - The primary purpose of this fund is to account for emergency dispatch and services. The primary source of receipts is the 911 fee charged to county residents.

Rural Development Fund - The primary purpose of this fund is to account the purchase of a vehicle for the Sheriff.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

CumberlandPublic Properties Corporation Fund - The purpose of this fund is to account for the financing and construction of major capital facilities and the related debt service payments.

Cumberland Health Services Fund - The primary purpose of this fund is to account for the acquisition, construction, and financing of public health facility projects.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Cumberland Public Properties Corporation Fund or the Cumberland Health Services Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from these funds annually.

E. Cumberland County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Cumberland County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Cumberland County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the fiscal court's deposits may not be returned. The fiscal court does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On August 31, 2014 and June 30, 2015, the fiscal court's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured on August 31, 2014 \$285,644
- Uncollateralized and Uninsured on June 30, 2015 \$ 40,787

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Road Fund	Total Transfers In
General Fund	\$	\$ 80,000	\$ 80,000
Jail Fund	180,000		180,000
Total Transfers Out	<u>\$ 180,000</u>	<u>\$ 80,000</u>	<u>\$ 260,000</u>

Reason for transfers:

Transfers are made to move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt

A. Land Improvements

On May 5, 2008, the Cumberland County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust for land improvements. The principal was \$210,000 at an effective interest rate of 4.23% for a period of ten years, with principal and interest paid monthly. The principal outstanding as of June 30, 2015 was \$66,680. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 22,827	\$ 2,522
2017	23,591	1,594
2018	20,262	597
Totals	<u>\$ 66,680</u>	<u>\$ 4,713</u>

B. Cumberland County Public Properties Corporation Mortgage Revenue Bonds, Series 2004

On February 4, 2004, the Cumberland County Public Properties Corporation issued \$405,000 of mortgage revenue bonds to complete the construction of the Justice Center Facility. The bonds mature serially through September 1, 2023 and require annual principal payments on September 1 and semi-annual interest payments at the rate of 4.2% on March 1 and September 1 of each year. Bonds outstanding as of June 30, 2015 were \$225,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 20,000	\$ 9,030
2017	20,000	8,190
2018	25,000	7,245
2019	25,000	6,195
2020	25,000	5,145
2021-2024	110,000	9,660
Totals	<u>\$ 225,000</u>	<u>\$ 45,465</u>

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt (Continued)

C. Cumberland County Public Properties Corporation Lease Refunding Revenue Bonds – Series 2011

On October 27, 2011 the Cumberland County Public Properties Corporation issued \$3,630,000 of lease refunding revenue bonds to partially refund the series 2002 mortgage revenue bonds used to construct the Justice Center Facility. The bonds mature serially through September 1, 2023 and require annual principal payments on September 1 and semi-annual interest payments at rates ranging from 1% to 2.9% on March 1 and September 1 of each year. Bonds outstanding as of June 30, 2015 were \$3,290,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 335,000	\$ 73,644
2017	345,000	68,447
2018	345,000	61,979
2019	355,000	54,446
2020	365,000	46,029
2021-2024	1,545,000	87,508
Totals	<u>\$ 3,290,000</u>	<u>\$ 392,053</u>

D. Cumberland Health Services Corporation Mortgage Revenue Bonds, Series 1992

On October 16, 1992, the Cumberland Health Services Corporation issued \$2,756,000 of mortgage revenue bonds for the purpose of financing the hospital additions and improvements to the Cumberland County Hospital and related facilities. The bonds mature serially through January 1, 2022 and require annual principal and interest payments on January 1 at an interest rate of 5%. Bonds outstanding as of June 30, 2015 were \$1,139,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 136,000	\$ 56,950
2017	144,000	50,150
2018	152,000	42,950
2019	162,000	35,350
2020	171,000	27,250
2021-2022	374,000	28,350
Totals	<u>\$ 1,139,000</u>	<u>\$ 241,000</u>

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt (Continued)

D. Cumberland Health Services Corporation Mortgage Revenue Bonds, Series 1992 (Continued)

The Cumberland Health Services Corporation (Corporation) a public, nonprofit governmental corporation set up by the Cumberland County Fiscal Court (Fiscal Court) owns the Cumberland County Hospital land and building. On October 16, 1992, the Corporation entered into a lease agreement with the Fiscal Court to lease the Cumberland County Hospital land and building. On the same day the Fiscal Court entered into a sublease agreement with the Cumberland County Hospital Association Incorporated (Hospital Association), a nonprofit, private corporation to operate the Cumberland County Hospital. As part of the sublease agreement, the Hospital Association is required to make monthly rental payments equal to the principal and interest on the 1992 bonds to be paid on January 1 each year. In addition, the Hospital Association is required to maintain certain deposits with a trustee under the Cumberland Health Services Corporation's name. The 1992 bonds are to be collateralized by all revenues generated by the Cumberland County Hospital. All Cumberland County Hospital assets are reported by the Hospital Association.

E. Cumberland Health Services Corporation Mortgage Revenue Bonds, Series 2012

On April 18, 2012, the Cumberland Health Services Corporation issued \$8,500,000 of mortgage revenue bonds for the purpose of financing the construction and equipment needed for hospital additions and improvements to the Cumberland County Hospital and related facilities. The bonds mature serially through January 1, 2051 and require annual principal payments on January 1 and semi-annual interest payments at an interest rate of 3.375% on July 1 and January 1 each year. Bonds outstanding as of June 30, 2015 were \$8,298,000.

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 107,000	\$ 280,057
2017	111,500	276,446
2018	116,000	272,683
2019	120,500	268,768
2020	125,000	264,701
2021-2025	705,500	1,256,681
2026-2030	858,500	1,127,672
2031-2035	1,044,500	970,734
2036-2040	1,270,500	779,844
2041-2045	1,546,000	547,560
2046-2050	1,880,000	265,022
2051	413,000	13,939
Totals	<u>\$ 8,298,000</u>	<u>\$ 6,324,107</u>

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt (Continued)

E. Cumberland Health Services Corporation Mortgage Revenue Bonds, Series 2012 (Continued)

The Cumberland Health Services Corporation (Corporation), a public, nonprofit governmental corporation set up by the Cumberland County Fiscal Court (Fiscal Court), owns the Cumberland County Hospital land and building. On April 1, 2012, the Corporation entered into a lease agreement with the Fiscal Court to lease the Cumberland County Hospital land and building. On the same day the Fiscal Court entered into a sublease agreement with the Cumberland County Hospital Association Incorporated (Hospital Association), a nonprofit, private corporation, to operate the Cumberland County Hospital. As part of the sublease agreement the Hospital Association is required to make monthly rental payments equal to the principal and interest on the 2012 bonds to be paid on January 1 each year, starting in January 1, 2014. In addition, the Hospital Association is required to maintain certain deposits with a trustee under the Cumberland Health Services Corporation's name. The 2012 bonds are to be collateralized by all revenues generated by the Cumberland County Hospital. All Cumberland County Hospital assets are reported by the Hospital Association.

F. Recycling Land/Building

On January 1, 2013, the Cumberland County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust for the purchase of land and building for the recycling center. The principal was \$178,700 at an effective interest rate of 3.75% for the period of ten years, with principal and interest paid monthly. The principal outstanding as of June 30, 2015 was \$137,003. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 17,870	\$ 5,959
2017	17,870	5,119
2018	17,870	4,294
2019	17,870	3,470
2020	17,870	2,652
2021-2023	<u>47,653</u>	<u>3,025</u>
Totals	<u>\$ 137,003</u>	<u>\$ 24,519</u>

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt (Continued)

G. Tractor

On May 16, 2014, the Cumberland County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust for the purchase of a tractor for the road department. The principal was \$70,700 at an effective interest rate of 3.15% for a period of five years, with principal and interest paid monthly. The principal outstanding as of June 30, 2015 was \$56,385. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 13,742	\$ 1,980
2017	14,182	1,429
2018	14,635	861
2019	13,826	274
Totals	<u>\$ 56,385</u>	<u>\$ 4,544</u>

H. Sheriff Vehicle

On September 1, 2011, the Cumberland County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust for the purchase of a vehicle for the Sheriff's office. The principal was \$24,373 at an effective interest rate of 4.2% for a period of four years, with principal and interest paid monthly. The outstanding principal was paid and the debt was retired during this fiscal year.

I. Tractor/Mower

On September 1, 2011, the Cumberland County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust for the purchase of a tractor/mower for the road department. The principal was \$62,655 at an effective interest rate of 4.15% for a period of four years, with principal and interest paid monthly. The outstanding principal was paid and the debt was retired during this fiscal year.

J. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 13,544,000	\$	\$ 592,000	\$12,952,000	\$ 598,000
Financing Obligations	318,494		58,426	260,068	54,439
Total Long-term Debt	<u>\$ 13,862,494</u>	<u>\$</u>	<u>\$ 650,426</u>	<u>\$13,212,068</u>	<u>\$ 652,439</u>

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Employee Retirement System

A. Plan Description

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous duty positions in the county. The Plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute five percent (nonhazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2013 was \$160,257, FY 2014 was \$167,577, and FY 2015 was \$154,700.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Employee Retirement System (Continued)

A. Plan Description (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

B. Net Pension Liability

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Cumberland County's proportionate share of the net pension liability as of June 30, 2015 is:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Non-Hazardous	\$ 1,524,000	\$ 1,347,000
Totals	<u>\$ 1,524,000</u>	<u>\$ 1,347,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

Note 6. Insurance

For the fiscal year ended June 30, 2015, Cumberland County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Payroll Revolving Account

The Payroll Revolving Account amount of \$22,650 was removed from the General Fund. The County Treasurer found an error with the software and reconciled the Payroll Revolving Account to an immaterial amount.

CUMBERLAND COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

CUMBERLAND COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
RECEIPTS				
Taxes	\$ 761,400	\$ 765,246	\$ 831,571	\$ 66,325
In Lieu Tax Payments	66,700	66,700	68,268	1,568
Excess Fees	1,915	8,941	9,484	543
Licenses and Permits	4,700	4,700	3,612	(1,088)
Intergovernmental	334,501	345,592	396,856	51,264
Miscellaneous	135,766	139,526	147,018	7,492
Interest	800	800	687	(113)
Total Receipts	1,305,782	1,331,505	1,457,496	125,991
DISBURSEMENTS				
General Government	663,616	714,994	692,761	22,233
Protection to Persons and Property	71,666	71,945	68,479	3,466
General Health and Sanitation	121,511	133,065	127,435	5,630
Social Services		1,961	1,000	961
Recreation and Culture	58,590	59,590	60,285	(695)
Debt Service	52,300	52,300	51,595	705
Administration	437,620	370,843	324,170	46,673
Total Disbursements	1,405,303	1,404,698	1,325,725	78,973
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	(99,521)	(73,193)	131,771	204,964
Other Adjustments to Cash (Uses)				
Change in Payroll Revolving Account			(22,650)	(22,650)
Transfers From Other Funds	159,521	159,521	80,000	(79,521)
Transfers To Other Funds	(145,000)	(145,000)	(180,000)	(35,000)
Total Other Adjustments to Cash (Uses)	14,521	14,521	(122,650)	(137,171)
Net Change in Fund Balance	(85,000)	(58,672)	9,121	67,793
Fund Balance Beginning	85,000	85,000	78,425	(6,575)
Fund Balance - Ending	\$ 0	\$ 26,328	\$ 87,546	\$ 61,218

CUMBERLAND COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,674,695	\$ 1,821,431	\$ 1,650,197	\$ (171,234)
Miscellaneous	6,400	6,400	7,029	629
Interest	3,000	3,000	3,386	386
Total Receipts	1,684,095	1,830,831	1,660,612	(170,219)
DISBURSEMENTS				
General Government	16,352	16,567	16,566	1
Protection to Persons and Property	200			
Transportation Facilities and Services	10,200	10,200	7,979	2,221
Roads	771,480	1,302,060	1,230,436	71,624
Debt Service	32,052	32,917	19,561	13,356
Capital Projects	385,572	391,119	134,697	256,422
Administration	943,954	555,412	223,871	331,541
Total Disbursements	2,159,810	2,308,275	1,633,110	675,165
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(475,715)	(477,444)	27,502	504,946
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(159,521)	(159,521)	(80,000)	79,521
Total Other Adjustments to Cash (Uses)	(159,521)	(159,521)	(80,000)	79,521
Net Change in Fund Balance	(635,236)	(636,965)	(52,498)	584,467
Fund Balance Beginning	680,000	680,000	602,729	(77,271)
Fund Balance - Ending	\$ 44,764	\$ 43,035	\$ 550,231	\$ 507,196

CUMBERLAND COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 92,375	\$ 92,375	\$ 87,993	\$ (4,382)
Interest	65	65	98	33
Total Receipts	92,440	92,440	88,091	(4,349)
DISBURSEMENTS				
Protection to Persons and Property	208,600	242,028	237,792	4,236
Administration	28,840	26,412	23,456	2,956
Total Disbursements	237,440	268,440	261,248	7,192
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(145,000)	(176,000)	(173,157)	2,843
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	145,000	145,000	180,000	35,000
Total Other Adjustments to Cash (Uses)	145,000	145,000	180,000	35,000
Net Change in Fund Balance		(31,000)	6,843	37,843
Fund Balance Beginning			4,407	4,407
Fund Balance - Ending	\$ 0	\$ (31,000)	\$ 11,250	\$ 42,250

CUMBERLAND COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 50,000	\$ 50,000	\$ 68,975	\$ 18,975
Interest	200	200	648	448
Total Receipts	50,200	50,200	69,623	19,423
DISBURSEMENTS				
General Government	12,287	12,287	12,515	(228)
Protection to Persons and Property	32,000	32,000	12,183	19,817
General Health and Sanitation	300	300	300	
Administration	133,613	128,613	9,034	119,579
Total Disbursements	178,200	173,200	34,032	139,168
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(128,000)	(123,000)	35,591	158,591
Net Change in Fund Balance	(128,000)	(123,000)	35,591	158,591
Fund Balance Beginning	128,000	128,000	131,926	3,926
Fund Balance - Ending	\$ 0	\$ 5,000	\$ 167,517	\$ 162,517

CUMBERLAND COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

FEDERAL GRANT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 0	\$ 0	\$ 9,443	\$ 9,443
Intergovernmental	133,300	165,735	118,431	(47,304)
Total Receipts	133,300	165,735	127,874	(37,861)
DISBURSEMENTS				
Protection to Persons and Property	262,611	295,374	184,454	110,920
Social Services	8,000	8,000	5,314	2,686
Total Disbursements	270,611	303,374	189,768	113,606
Excess (Deficiency) of Receipts Over Adjustments to Cash (Uses)	(137,311)	(137,639)	(61,894)	75,745
Net Change in Fund Balance	(137,311)	(137,639)	(61,894)	75,745
Fund Balance Beginning	137,311	137,311	123,083	(14,228)
Fund Balance - Ending	\$ 0	\$ (328)	\$ 61,189	\$ 61,517

CUMBERLAND COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

FORESTRY FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 3,200	\$ 3,200	\$ 3,161	\$ (39)
Interest			75	75
Total Receipts	3,200	3,200	3,236	36
DISBURSEMENTS				
Protection to Persons and Property	3,200	3,200	2,968	232
Total Disbursements	3,200	3,200	2,968	232
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			268	268
Net Change in Fund Balance			268	268
Fund Balance Beginning			18,589	18,589
Fund Balance - Ending	\$ 0	\$ 0	\$ 18,857	\$ 18,857

CUMBERLAND COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

ENHANCED 911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 181,000	\$ 181,000	\$ 198,622	\$ 17,622
Total Receipts	181,000	181,000	198,622	17,622
DISBURSEMENTS				
Protection to Persons and Property	181,000	181,000	175,672	5,328
Total Disbursements	181,000	181,000	175,672	5,328
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			22,950	22,950
Net Change in Fund Balance			22,950	22,950
Fund Balance Beginning			12,524	12,524
Fund Balance - Ending	\$ 0	\$ 0	\$ 35,474	\$ 35,474

CUMBERLAND COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

RURAL DEVELOPMENT FUND			
Budgeted Amounts		Actual	Variance with
Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS			
Intergovernmental	\$ 0	\$ 350,000	\$ 0
Total Receipts		350,000	(350,000)
DISBURSEMENTS			
Protection to Persons and Property		350,000	350,000
Total Disbursements		350,000	350,000
Net Change in Fund Balance			
Fund Balance Beginning			
Fund Balance - Ending	\$ 0	\$ 0	\$ 0

CUMBERLAND COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Excess of Disbursements Over Appropriations

The Recreation and Culture line item in the General Fund exceeded budgeted appropriations by \$695.

The General Government line item in the Local Government Economic Assistance Fund exceeded budgeted appropriations by \$228.

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CUMBERLAND COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015

CUMBERLAND COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following schedule of capital assets:

	(Restated) Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 774,751	\$	\$	\$ 774,751
Construction In Progress	1,180	9,150	1,180	9,150
Buildings	5,937,279			5,937,279
Vehicles	439,688	10,000		449,688
Equipment	1,015,834	34,375		1,050,209
Infrastructure	4,276,756	593,061		4,869,817
 Total Capital Assets	 <u>\$ 12,445,488</u>	 <u>\$ 646,586</u>	 <u>\$ 1,180</u>	 <u>\$13,090,894</u>

CUMBERLAND COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2015

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	20-25
Buildings and Building Improvements	\$ 25,000	10-60
Equipment	\$ 5,000	5-20
Vehicles	\$ 5,000	5-20
Infrastructure	\$ 20,000	20-40

Note 2. Prior Period Adjustments

The beginning balance for construction in progress was increased by \$1,180. The prior year capital asset schedule did not include construction in progress for bridge work performed in fiscal year 2014.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John A. Phelps, Jr., Cumberland County Judge/Executive
Members of the Cumberland County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Cumberland County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Cumberland County Fiscal Court's financial statement and have issued our report thereon dated May 06, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Cumberland County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Cumberland County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cumberland County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation 2015-001 to be a material weakness.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Cumberland County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County Judge/Executive's Response to Finding

The Cumberland County Judge/Executive's response to the finding identified in our audit is described in the accompanying comment and recommendation. The County Judge/Executive's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mike Harmon', followed by a horizontal line.

Mike Harmon
Auditor of Public Accounts

May 06, 2016

**CUMBERLAND COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2015

CUMBERLAND COUNTY
COMMENT AND RECOMMENDATION

Fiscal Year Ended June 30, 2015

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-001 The Cumberland County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash Receipts
 And The Reconciliation Process

The County Treasurer receives, records, and deposits all funds, including occupational tax. She also prepares all bank reconciliations and weekly/monthly reports. The county has instituted some review processes, such as reviewing the bank statements and bank reconciliations. This review is documented by the County Judge initialing the bank statements with the reconciliation attached. The Deputy Judge makes a list of all receipts before delivery to the County Treasurer. However, the list made by the Deputy Judge is never compared to the actual deposits.

Lack of segregation of duties could result in inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in functions which are incompatible as well as protecting the fiscal court against inaccurate financial reporting.

We recommend the fiscal court separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing oversight should document this by initialing source documents. We also recommend the listing of receipts be compared to the actual deposits made by the County Treasurer and comparison be documented.

County Judge/Executive's Response: Not cost effective for additional staffing to remediate this situation.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

CUMBERLAND COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2015**

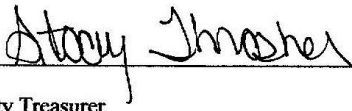
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
CUMBERLAND COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

The Cumberland County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

